Response to Summers and Sarin, "A wealth tax presents a revenue estimation puzzle," *Washington Post*, April 4.

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We have estimated that the wealth tax proposed by Senator Warren, at a rate of 2% above $50 million and an additional 1% above $1 billion, would raise $212 billion in 2019 (and $2.75 trillion from 2019 to 2028). It would be paid by the 75,000 richest American families, less than 0.1% of the population. Summers and Sarin claim that our revenue estimates are exaggerated by a factor of 8. But their argument is unsound for several reasons.

Wealth tax revenue depends on two things only: how much wealth the rich own, and what fraction of their wealth they can shelter from the tax.

To estimate the wealth of America's richest families, we combined the best available sources: the Survey of Consumer Finances, income tax statistics, and the list of the 400 richest Americans compiled by Forbes magazine. All these sources show a high and growing concentration of wealth in the United States. According to these sources, absent tax avoidance the wealth tax would raise $250 billion in 2019. This number, although it involves some uncertainty given the lack of administrative data on wealth in the United States, is broadly accepted as being in the right ballpark. It is not contested by Summers and Sarin. Where views differ is on the scale of tax avoidance should a Warren administration implement a wealth tax.

To form our estimate of tax avoidance, we turned to the experience of other countries. Based on the four published academic studies of wealth taxes abroad, we assumed that the rich would shelter 15% of their wealth, leading to our $212 billion revenue estimate. Summers and Sarin's calculations, by contrast, amount to assuming that the rich would shelter 90% of their assets, leading to their revenue estimate of $25 billion in 2019.

Suppose for a moment that the wealth data are faulty and that the rich are only half as rich as the data suggest. Even then, Summers and Sarin would still need to assume that 80% of taxable wealth would evade taxation to obtain their revenue estimate of $25 billion.

Assuming that 80%-90% of the wealth tax will be avoided is not a serious revenue estimation. This amounts to postulating that taxing the rich is impossible, without engaging with the reality of wealth in the United States, its concentration and its nature. According to Forbes magazine, the richest 400 Americans are worth $2.9 trillion in 2018. The wealth tax on them alone would raise $82 billion, more than three times what Summers and Sarin estimate could be raised from the richest 75,000 families in total.

The richest 15 Americans alone are so rich that they would pay $28 billion in wealth tax, more than the Summers and Sarin grand total of $25 billion. Among these 15 richest persons, 12 of them—representing 83% of the wealth of this group—are large shareholders of corporate giants

Amazon, Microsoft, Berkshire Hathaway, Facebook, Oracle, Google, Walmart, and Las Vegas Sands, whose stock is publicly traded and thus has a well-defined market value. For them, avoiding the wealth tax is impossible. How could Jeff Bezos pretend that his wealth in Amazon stock is worth only a fraction of its observable market value? For the remaining 3 in the top 15, their wealth is in private businesses (Koch industries and Bloomberg LP) for which there is no traded stock. But a large chunk of the value of these businesses derives from owning other publicly traded companies, making it hard for the Koch brothers and Michael Bloomberg to pass for paupers.

More broadly, 80% of the wealth of the top 0.1% wealthiest families is in the form of assets that are traded and have a clear market price: publicly traded stock, bonds, and real estate.[1] Only about 20% of their assets are in private businesses that do not have a directly observable market price. Valuing such businesses, and especially the largest ones, is anything but impossible. That is what the financial sector routinely does, and the IRS could mandate financial institutions to report their valuations of private businesses

[1] In 2016 the top 0.1% owned 18.6% of total U.S. wealth, of which 9.6% was in fixed-income claims, housing, and pensions (all with observable market values), 7.1% was in equity assets (listed and unlisted, including shares in S-corporations) and 1.9% in business assets (partnerships and other non-corporate businesses). Assuming that all business assets are unlisted and 30% of directly-held corporate equities are unlisted (which is the macro average for the US), 21.5% of top 0.1% wealth was invested in assets with no directly observable market value. See Saez, Emmanuel and Gabriel Zucman, "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data", Quarterly Journal of Economics 131(2), 2016, 519-578.

for the purpose of enforcing the wealth tax. Art, valuable (gold, jewelry, etc.), and durables (yachts, cars, etc.) are a negligible fraction of wealth at the top.[2]

Summers and Sarin obtain their $25 billion revenue estimate by noting that the estate tax collected only $10 billion from estates above $50 million in 2017 with a nominal tax rate of 40%. All their "scoring" does is to say that 1 out of 50 rich people dies in a given year, so a wealth tax of 40% on the living population (instead of decedents only) would collect 50 times what the estate tax does. Hence a wealth tax at rate of 2% (1/20 of 40%) would collect 50/20 times what the estate tax does. Voila, $25 billion! There is no underlying white paper, no detailed computations, just this back-of-the-envelope estimate.

This computation has three major problems. First, the effective estate tax rate is much lower than 40% above $50 million, because transfers to surviving spouses and charities are tax-exempt. As Summers and Sarin themselves note, taking this fact into account increases their revenue estimate to $75 billion.

Second, however, the estate tax data do not paint a correct picture of top-end wealth in America. According to estate tax data the top 0.1% own less than 10% of total household wealth, instead of 20% in other sources.[3]

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[2] In total, these forms of wealth amount to about 10% of US wealth (mostly due to cars), and less than that at the top. Our estimates of U.S. wealth exclude art, valuable, and durables entirely (due to the lack of comprehensive data), and hence our revenue estimates do not include any revenue raised on these forms of wealth.

[3] Figure XA in Saez, Emmanuel and Gabriel Zucman, "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data", Quarterly Journal of Economics 131(2), 2016, 519-578.

This means that wealthy decedents effectively divide their wealth by a factor of two through various tax avoidance mechanisms. A similar finding was obtained by researchers in the tax administration, who found that the wealth reported by decedents from the Forbes 400 on their estate tax returns is only half the wealth estimated by Forbes magazine.[4] There is widespread estate tax dodging: about 50% of estate taxes owed are avoided.

The last and fundamental problem with the Summers-Sarin approach is that it is not appropriate to assume that a Warren wealth tax would be as poorly enforced as the estate tax currently is. Everybody agrees that estate tax dodging is rampant. But this tax dodging has changed dramatically over time, as the political will to enforce the tax declined. In 1975, the IRS audited 65% of the 29,000 largest estate tax returns filed in 1974. By 2018, only 8.6% of the 34,000 estate tax returns filed in 2017 were audited.[5] The estate tax collected five times more revenue (relative to household wealth) in the mid-1970s than today. Some of this fall owes to the rise in the exemption threshold and the decline in the top marginal tax rate (from 77% in 1976 down to 40% today), but the bulk of it stems from a collapse in enforcement, of which the collapse in the number of audits is only one indication.

Summers and Sarin refuse to engage with the anti-dodging measures built into the Warren wealth tax proposal: the high audit rates, the taxation

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[4] Raub, Brian, Barry Johnson, and Joseph Newcomb. "A Comparison of Wealth Estimates for America's Wealthiest Decedents Using Tax Data and Data from the Forbes 400." National Tax Association Proceedings, 103rd Annual Conference on Taxation (2010): 128-135.

[5] Internal Revenue Service Databook 2018, Table 9a for year 2018 and US Treasury, Internal Revenue Service, Annual Report of the Commissioner of Internal Revenue 1975, Table 2, p. 89).

of all assets with no exemption and no discount for any asset class, the high exit tax, and the systematic use of third-party reported information (reducing self-declarations to a minimum). Rather, they start from the premise that the rich cannot be taxed, to arrive at the conclusion that a tax on the rich would not collect much.

Instead of simply assuming that the rich cannot be taxed, a more rational approach involves combining the current scientific knowledge on the nature and the distribution of wealth in the United States, the lessons from the experience of other countries, and the lessons from historical changes in tax enforcement in America.

Our estimate is not a "best case" scenario but is itself a middle-ground. With pre-populated returns based on a systematic reporting of information by third parties, a full taxation of all assets at their market value with no exemption, high audit rates, and a high exit tax, it is possible that avoidance would be below 15%. Revenue would exceed the $212 billion we estimate.

The Warren wealth tax is a pioneering proposal: it is focused on the ultrarich (with wealth above $50 million), in contrast to European wealth taxes (which typically have or had a threshold around $1 million) and to the estate tax (which had a $5.5 million exemption threshold in 2017, before being multiplied by two in 2018). The high exemption threshold of $50 million will make it much harder for lobbying groups to successfully lobby for exemptions (e.g., for small businesses, family farms, castle owners with no income, etc.), which is the process that led to the erosion of some European wealth taxes (and almost killed the estate tax under George W. Bush). The key lesson from the international experience with wealth taxation is that such a tax works well when it has a comprehensive base that includes all asset classes. The Warren wealth tax meets this requirement.